

Idaho Economic Forecast

The following tables and text are taken from the
January 2002 *Idaho Economic Forecast*,
a publication produced by the
Division of Financial Management.

EXECUTIVE SUMMARY

Idaho is expected to experience even softer economic growth this year compared to last year. A major reason for this is a national downturn that started in 2001 and is expected to carry over into 2002. As a result, real GDP is projected to grow a meager 0.4% in 2002. The ripples from this weakness will be felt locally and make 2002 the most challenging year of the forecast. Idaho nonfarm employment should grow just 0.5% this year, which is less than one-third the previous year's pace. Idaho real personal income advances 2.2%, which is one-half percentage point lower than in 2001. The Idaho economic outlook improves after this year as the national recovery hits full stride in 2003 and continues growing in the remaining years of the forecast. Idaho nonfarm employment grows about 2.0% per year over this period. While Idaho nonfarm employment and personal income slow significantly in 2002, it is important to note that they still fare better than their respective national counterparts. For example, U.S. nonfarm employment is forecast to decline 0.4% in 2002 and real personal income should rise just 1.1%. Idaho personal income's growth pace also improves after 2002. Powered by strong wage and salaries growth, Idaho real personal income should advance 3.9% in 2003, 3.4% in 2004, and 3.5% in 2005.

The nation's longest expansion on record is officially over. Exactly a decade after the National Bureau of Economic Research (NBER) announced the expansion's birth, it wrote its obituary. On December 13, 2001, the NBER's Business Cycle Dating Committee determined the economy slipped into a recession in April 2001. Given the economy is in a recession, this begs the question of how serious this recession will be. The current recession is expected to last four quarters, from the second quarter of 2001 to the first quarter of 2002. If this holds true, the recession is well over half over. Real GDP is anticipated to decrease about one percent during the recession. The good news is that this is relatively mild when compared to historical standards. On average, postwar recessions have lasted 11 months and real output has fallen 2.3%. Thus, the good news is the mild recession is nearly over.

The bad news is some industries have been hit harder than others, and are not expected to turn around as quickly as the overall economy. Companies that manufacture capital goods, especially high-tech equipment, will take longer to recover. Manufacturing was in a slump about a year before the current recession started. The collapse of business investment led this sector's woes. During the second half of the 1990s, U.S. real business investment was an engine of economic growth that grew over 10.0% annually. Real combined spending on software, computers, and communications equipment advanced over 25.0% per year. This investment swelled the nation's manufacturing capacity just prior to a softening in demand. In addition, other countries also have excess manufacturing capacity. With the current glut of manufacturing capacity, U.S. companies have little incentive to increase capital spending through 2002.

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2002

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP (BILLIONS)										
Current \$	7,813	8,318	8,782	9,269	9,873	10,206	10,414	11,096	11,794	12,460
% Ch	5.6%	6.5%	5.6%	5.5%	6.5%	3.4%	2.0%	6.6%	6.3%	5.6%
1996 Chain-Weighted	7,813	8,159	8,509	8,857	9,224	9,323	9,363	9,777	10,151	10,477
% Ch	3.6%	4.4%	4.3%	4.1%	4.1%	1.1%	0.4%	4.4%	3.8%	3.2%
PERSONAL INCOME - CURR \$										
Idaho (Millions)	24,174	25,227	27,079	28,572	30,759	32,193	33,388	35,475	37,578	39,862
% Ch	5.7%	4.4%	7.3%	5.5%	7.7%	4.7%	3.7%	6.3%	5.9%	6.1%
Idaho Nonfarm (Millions)	23,298	24,557	26,163	27,577	29,797	31,059	32,242	34,320	36,411	38,686
% Ch	5.6%	5.4%	6.5%	5.4%	8.1%	4.2%	3.8%	6.4%	6.1%	6.2%
U.S. (Billions)	6,547	6,937	7,426	7,777	8,319	8,735	8,962	9,463	10,008	10,543
% Ch	5.6%	6.0%	7.0%	4.7%	7.0%	5.0%	2.6%	5.6%	5.8%	5.3%
PERSONAL INCOME - 1996 \$										
Idaho (Millions)	24,172	24,745	26,281	27,282	28,605	29,368	30,013	31,192	32,246	33,386
% Ch	3.5%	2.4%	6.2%	3.8%	4.9%	2.7%	2.2%	3.9%	3.4%	3.5%
Idaho Nonfarm (Millions)	23,297	24,088	25,392	26,331	27,711	28,334	28,983	30,176	31,245	32,401
% Ch	3.3%	3.4%	5.4%	3.7%	5.2%	2.2%	2.3%	4.1%	3.5%	3.7%
U.S. (Billions)	6,547	6,805	7,208	7,427	7,737	7,968	8,053	8,317	8,585	8,827
% Ch	3.4%	3.9%	5.9%	3.0%	4.2%	3.0%	1.1%	3.3%	3.2%	2.8%
HOUSING STARTS										
Idaho	9,223	8,866	10,111	10,331	11,508	11,562	10,679	9,768	9,871	10,036
% Ch	-1.5%	-3.9%	14.0%	2.2%	11.4%	0.5%	-7.6%	-8.5%	1.1%	1.7%
U.S. (Millions)	1,469	1,475	1,621	1,647	1,575	1,589	1,555	1,506	1,575	1,605
% Ch	7.9%	0.4%	9.9%	1.6%	-4.4%	0.9%	-2.1%	-3.1%	4.6%	1.9%
TOTAL NONFARM EMPLOYMENT										
Idaho (Thousands)	492.6	508.8	521.5	539.1	559.2	569.4	572.2	583.1	594.5	607.2
% Ch	3.2%	3.3%	2.5%	3.4%	3.7%	1.8%	0.5%	1.9%	2.0%	2.1%
U.S. (Millions)	119.6	122.7	125.8	128.9	131.8	132.2	131.7	133.0	135.4	137.5
% Ch	2.0%	2.6%	2.6%	2.4%	2.2%	0.4%	-0.4%	1.0%	1.8%	1.5%
SELECTED INTEREST RATES										
Federal Funds	5.3%	5.5%	5.4%	5.0%	6.2%	3.9%	2.5%	4.5%	5.0%	5.0%
Bank Prime	8.3%	8.4%	8.4%	8.0%	9.2%	6.9%	5.5%	7.5%	8.0%	8.0%
Existing Home Mortgage	7.7%	7.7%	7.1%	7.3%	8.0%	7.1%	6.9%	8.0%	8.4%	8.2%
INFLATION										
GDP Price Deflator	1.9%	1.9%	1.2%	1.4%	2.3%	2.3%	1.6%	2.0%	2.4%	2.4%
Personal Cons Deflator	2.1%	1.9%	1.1%	1.6%	2.7%	2.0%	1.5%	2.2%	2.5%	2.5%
Consumer Price Index	2.9%	2.3%	1.5%	2.2%	3.4%	3.0%	1.9%	2.4%	2.6%	2.7%

National Variables Forecast by DRI*WEFA
Forecast Begins the THIRD Quarter of 2001

IDAHO ECONOMIC FORECAST

EXECUTIVE SUMMARY

JANUARY 2002

	2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	10,228	10,328	10,458	10,640	10,831	11,015	11,178	11,362	11,557	11,715	11,871	12,035
% Ch	-0.2%	4.0%	5.1%	7.1%	7.4%	7.0%	6.0%	6.8%	7.0%	5.6%	5.4%	5.6%
1996 Chain-Weighted	9,246	9,304	9,392	9,510	9,623	9,737	9,821	9,927	10,036	10,115	10,187	10,268
% Ch	-1.6%	2.5%	3.8%	5.1%	4.8%	4.8%	3.5%	4.4%	4.5%	3.2%	2.9%	3.2%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	32,811	33,130	33,561	34,049	34,652	35,212	35,754	36,279	36,771	37,303	37,875	38,364
% Ch	2.3%	3.9%	5.3%	5.9%	7.3%	6.6%	6.3%	6.0%	5.5%	5.9%	6.3%	5.3%
Idaho Nonfarm (Millions)	31,657	31,977	32,406	32,930	33,509	34,081	34,582	35,106	35,667	36,144	36,649	37,185
% Ch	2.8%	4.1%	5.5%	6.6%	7.2%	7.0%	6.0%	6.2%	6.5%	5.5%	5.7%	6.0%
U.S. (Billions)	8,844	8,903	8,993	9,107	9,258	9,400	9,529	9,664	9,817	9,946	10,071	10,197
% Ch	1.6%	2.7%	4.1%	5.2%	6.8%	6.3%	5.6%	5.8%	6.5%	5.4%	5.1%	5.1%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	29,693	29,854	30,121	30,382	30,744	31,066	31,346	31,612	31,851	32,116	32,399	32,619
% Ch	1.1%	2.2%	3.6%	3.5%	4.8%	4.3%	3.7%	3.4%	3.1%	3.4%	3.6%	2.7%
Idaho Nonfarm (Millions)	28,648	28,815	29,084	29,384	29,730	30,068	30,318	30,590	30,896	31,118	31,351	31,616
% Ch	1.6%	2.3%	3.8%	4.2%	4.8%	4.6%	3.4%	3.6%	4.1%	2.9%	3.0%	3.4%
U.S. (Billions)	8,001	8,020	8,068	8,123	8,210	8,290	8,351	8,418	8,500	8,560	8,612	8,666
% Ch	0.3%	1.0%	2.4%	2.8%	4.4%	3.9%	3.0%	3.2%	4.0%	2.8%	2.4%	2.6%
HOUSING STARTS												
Idaho	10,972	10,841	10,583	10,320	10,000	9,735	9,678	9,658	9,792	9,853	9,877	9,964
% Ch	-1.6%	-4.7%	-9.2%	-9.6%	-11.8%	-10.2%	-2.3%	-0.8%	5.6%	2.5%	1.0%	3.6%
U.S. (Millions)	1,520	1,594	1,571	1,534	1,503	1,497	1,503	1,521	1,544	1,572	1,587	1,598
% Ch	2.6%	20.8%	-5.7%	-9.0%	-7.9%	-1.5%	1.7%	4.8%	6.1%	7.6%	3.8%	2.9%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	569.5	570.9	572.8	575.6	578.3	581.6	584.7	587.7	590.5	593.1	595.8	598.7
% Ch	0.6%	1.0%	1.3%	2.0%	1.9%	2.3%	2.1%	2.1%	1.9%	1.8%	1.8%	1.9%
U.S. (Millions)	131.6	131.6	131.8	131.9	132.3	132.8	133.2	133.8	134.5	135.2	135.7	136.2
% Ch	-0.1%	0.0%	0.5%	0.6%	1.0%	1.5%	1.2%	2.0%	2.2%	2.0%	1.5%	1.5%
SELECTED INTEREST RATES												
Federal Funds	2.0%	2.3%	2.6%	3.3%	3.9%	4.5%	4.8%	5.0%	5.0%	5.0%	5.0%	5.0%
Bank Prime	5.0%	5.3%	5.6%	6.3%	6.9%	7.5%	7.8%	8.0%	8.0%	8.0%	8.0%	8.0%
Existing Home Mortgage	6.8%	6.8%	6.9%	7.1%	7.6%	8.0%	8.2%	8.3%	8.4%	8.4%	8.4%	8.2%
INFLATION												
GDP Price Deflator	1.5%	1.4%	1.2%	1.9%	2.4%	2.1%	2.4%	2.3%	2.5%	2.3%	2.5%	2.3%
Personal Cons Deflator	1.2%	1.7%	1.6%	2.3%	2.3%	2.3%	2.6%	2.5%	2.4%	2.5%	2.6%	2.5%
Consumer Price Index	1.7%	1.8%	1.8%	2.4%	2.4%	2.4%	2.7%	2.6%	2.6%	2.7%	2.8%	2.7%

National Variables Forecast by DRI*WEFA
Forecast Begins the THIRD Quarter of 2001

NATIONAL FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2001 through the Fourth Quarter of 2005

The nation's longest expansion on record is officially over. Exactly a decade after the National Bureau of Economic Research (NBER) announced the expansion's birth, it wrote its obituary. On December 13, 2001, the NBER's Business Cycle Dating Committee determined the economy slipped into a recession in April 2001. Interestingly, this recession does not follow the rule-of-thumb definition of two or more quarters declining real output. In fact, real GDP actually posted a small gain (0.3%) in the second quarter of 2001 when the recession is said to have begun. Real GDP did turn south in the third quarter of 2001, however. The difference in dating the start of the recession lies in the fact that the NBER considers many indicators besides real GDP, paying particular attention to data series that are available monthly. After reviewing this data, the NBER saw enough weakness in the economy to declare a recession. In December 2001, the U.S. Department of Commerce's Bureau of Economic Analysis reported real GDP shrank at a 1.3% annual rate in the third quarter of 2001. This data helps confirm the NBER's findings that the economy is indeed in a recession.

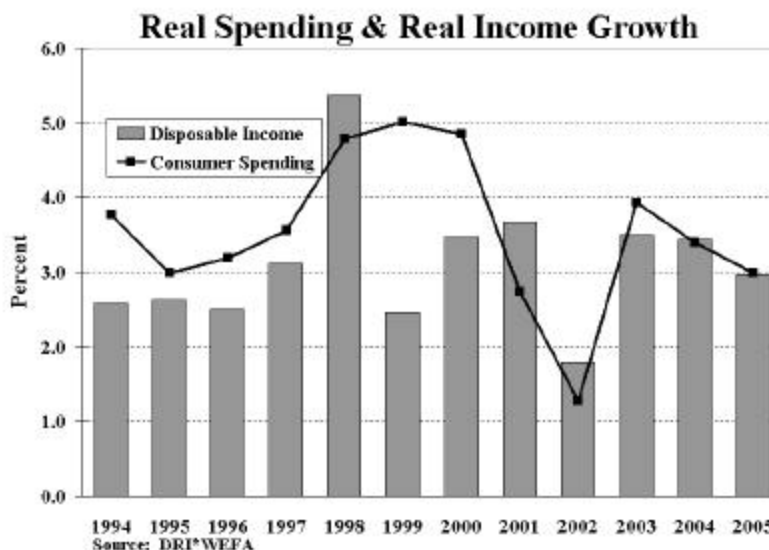
Given the economy is in a recession, this begs the question of how serious this recession will be. As a general rule, most economists measure a slowdown's severity by its duration and depth. Some economists (such as those at NBER) also look at a slowdown's dispersion. We will focus on duration and depth. The current recession is expected to last four quarters, from the second quarter of 2001 to the first quarter of 2002. If this holds true, the recession is well over half over. Real GDP is anticipated to decrease about one percent during the recession. The good news is that this is relatively mild when compared to historical standards. On average, postwar recessions have lasted 11 months and real output has fallen 2.3%. Thus, the good news is the mild recession is nearly over.

The bad news is some industries have been hit harder than others, and are not expected to recover as quickly as the overall economy. Companies that manufacture capital goods, especially high-tech equipment, will take longer to recover. Manufacturing was in a slump about a year before the current recession started. The collapse of business investment led this sector's woes. During the second half of the 1990s, U.S. real business investment was an engine of economic growth that grew over 10.0% annually. Real combined spending on software, computers, and communications equipment advanced over 25.0% per year. This investment swelled the nation's manufacturing capacity just prior to a softening in demand. As a result, the U.S. manufacturing capacity utilization rate sank from 81.7% in the middle of 2000 to 73.0% in November 2001. In addition, other countries also have excess manufacturing capacity. With the current glut of manufacturing capacity, U.S. companies have little incentive to increase capital spending through 2002.

Inventories have played a role in the slowdown and should have part in the recovery. The runoff of real nonfarm inventories has been severe. This means a large proportion of demand is being met by inventories and not new production. This holds down real GDP. However, it is believed that so much inventory has been liquidated recently, businesses will have problems meeting demand by early this year. This should cause production to rise, which will raise real GDP. In addition, employees should see their paychecks increase as companies increase hours in order to meet production needs. Employees will then have more income to spend and this will raise aggregate demand. This additional demand will require further production increases. This virtuous cycle should help real GDP expand 0.4% this year, 4.4% next year, 3.8% in 2004, and 3.2% in 2005.

SELECTED NATIONAL ECONOMIC INDICATORS

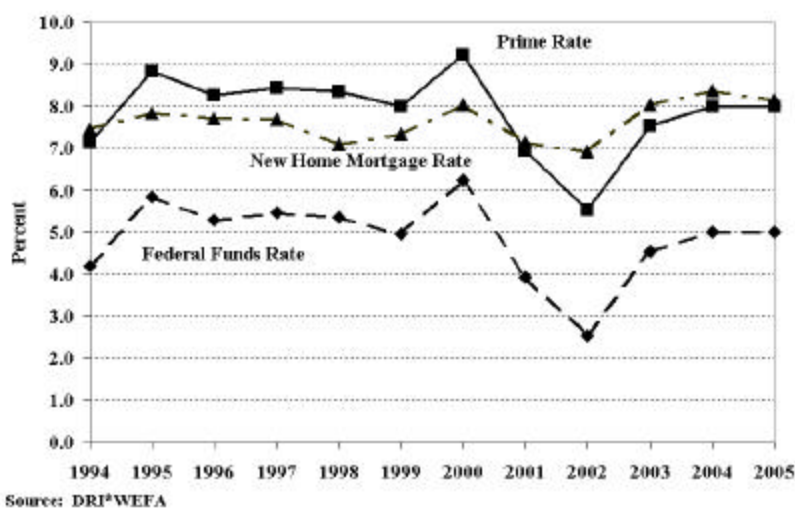
Consumer Spending: The terrorists' attacks on the U.S. weakened the consumer sector, which pushed the already ailing economy from the cusp of a slowdown into the abyss of a recession. Fears following the attack caused consumer confidence to plunge in September 2001. There have been only two other times in recent memory that consumers' collective psyches have been this shaken. They were the 1973 oil embargo and the invasion of Kuwait in 1990. This drop in confidence had an immediate impact on spending. In the week



after the attacks, mortgage applications, visitors to malls, and retail and wholesale computer sales plunged. Overall, real consumer spending declined at a 1.3% annual rate in September 2001. However, the consumer sector showed signs of life soon after the initial shock of the attacks had worn off. Consumer confidence began recovering in October and consumers showed they were willing to spend again if the right deal came along. Thanks to interest-free financing by automakers, retail sales jumped 6.4% in October. Autos rolled off show room floors at an incredible 21-million unit annual rate in October followed by sales at an 18-million unit rate in November. Total retail sales would have been even higher in October but for falling gasoline prices. If vehicle and gasoline sales are excluded from the total, retail sales were essentially unchanged from October to November. During economic downturns real spending typically grows slower than real disposable income because uncertainties about the future cause consumers to hunker down and wait out the economic rough patch. This being the case, it is assumed that real consumer spending will rise just 1.3% this year, which is about 50 basis points below real disposable income growth. As the economy recovers spending will match income growth. Real consumer spending is expected to rise 3.9% in 2003, 3.4% in 2004, and 3.0% in 2005. By comparison, real disposable income is forecast to rise 3.5% in 2003, 3.4% in 2004, and 3.0% in 2005. This could change depending on whether a stimulus bill becomes law. The timing and form of this bill could alter the future direction of consumer spending. Another uncertainty surrounding a stimulus bill is how households will treat any additional income. The purpose of a stimulus package is to provide the means for households to increase aggregate demand. Unfortunately, the experience with last summer's tax rebate suggests consumers are not spending as much of the rebate as had been hoped, but instead they used a large portion of it to pay down debt. Thus, if recent history is an indicator, another round of rebates could possibly have a less-than-desired effect. This is not to say reducing debt has only negative impacts on spending. For example, lowering household debt frees funds for purchases. In addition, the recent surge in home refinancing (roughly 1 million people have applied to refinance their homes between September 11 and November 1) will boost the average family budget with \$150 to \$200 a month.

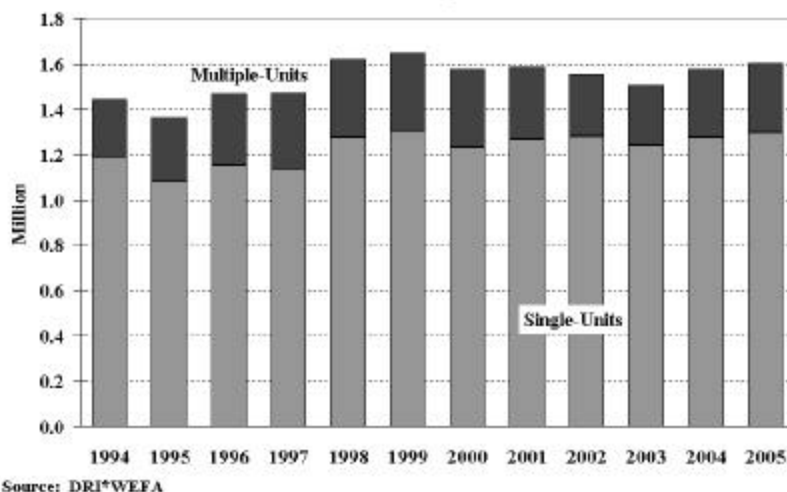
Financial: This year the Federal Reserve squashed any doubts that it would react aggressively to an economic slowdown. From January 2001 to December 2001, the nation's central bank cut interest rates a record 11 times. These moves brought the bank's bellwether short-term federal funds rate from 6.5% to 1.75%, its lowest level since 1958. These moves are noticeable departures from the gradualism that has been a hallmark during Chairman Greenspan tenure at the helm of the central bank. While most handicappers are betting the Federal Reserve is near the end of its current loosening cycle, it is difficult to determine exactly when this policy turning point will occur. Recent press releases report that the Federal Reserve continues to believe the economy is fragile, so its short-term mission remains moving the economy forward again. In the mean time its war against inflation has been moved to the back burner. To be fair, current price information suggests a truce has been declared with inflation without the Federal Reserve needing to intervene. This current low-inflation environment has given the central bank the confidence to undertake such an aggressive policy without the fear of stoking inflationary fires. It will be interesting to watch the Federal Reserve's policy over the next few months because it will provide insight into the health of the economy. Traditionally, the Federal Reserve does not change its policy until it is convinced a crisis is over. Thus, the Federal Reserve will reveal its feelings when it meets in January 2002. A large cut at that time would suggest the Federal Reserve believes the economy is not out of danger. A small cut or no cut would suggest the economy is stabilizing and posed for a recovery. The current forecast shows a small cut in the first quarter of 2002 followed by a small increase in that year's second quarter. This is consistent with the rest of the forecast that assumes after a moderate length recession the economy will begin expanding in the second quarter of 2002.

Selected Interest Rates



Housing: Housing market indicators have been trending down since mid-2001 and will likely weaken into 2002. Nevertheless, housing starts and sales remain near their high year-2000 averages. The housing sector's near-term future hinges on the employment situation, mortgage rates, and consumer confidence. Unfortunately, the short-term prognosis for the employment sector is not good. This will put downward pressure on housing that may more than offset the positive influence of low mortgage interest rates. This is significant because

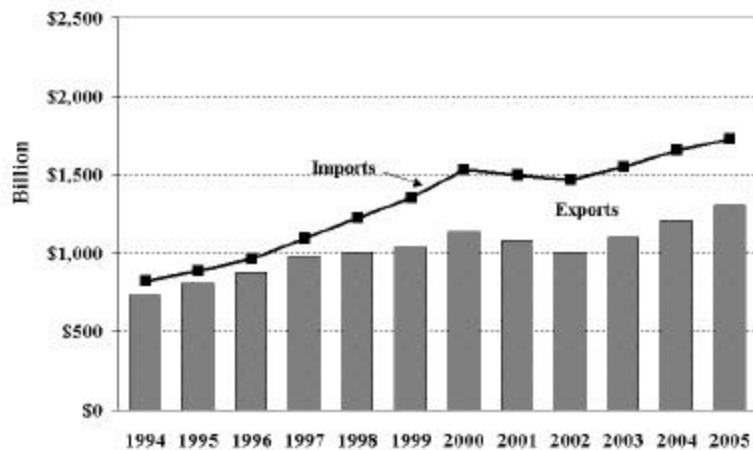
U.S. Housing Starts



low mortgage rates have been keeping the wind in the housing sector's sails. The average 30-year fixed mortgage rate sank to its lowest level in the 22 years that records have been kept. During the first week of November 2001, the 30-year rate stood at 6.45%. Interestingly, though, the real mortgage interest rate (mortgage interest rate less inflation) is relatively high because of low inflation. Thus, it may not be providing the boost implied by the nominal mortgage rate. The current forecast shows there were 1.59 million housing starts in 2001, up marginally from the 1.57 million starts in 2000. It should be pointed out, however, the strong annual showing for last year reflects this sector's strength in late 2000 and early 2001, but masks the deteriorating conditions through the rest of 2001. Specifically, U.S. housing starts went from a 1.63 million-unit rate in the first quarter of 2001 to a 1.51 million-unit pace by the last quarter of 2001. With the exception of the second quarter of this year, U.S. housing starts are expected to slide through the first half of 2003. It will then grow gradually as the economic recovery becomes more established.

International: The U.S. recession will have repercussions beyond its borders. The ripples from the economic downturn in this country will be felt globally, and will hit its neighbors particularly hard. Canada's motor-vehicle production has already been hurt and will ultimately reflect production distortions caused directly and indirectly by interest-free financing. In addition, tightened border security will have a transitory effect on Canada and Mexico. The downturn in the U.S. economy will also have a disproportionate impact on the economies of Southeast Asia because so many of that region's economies depend on exports to the United States. This should not come as a surprise, as signs of weakness have been present for some time now. For example, U.S. imports (foreign exports) have plummeted from a 15.0% annual growth rate in the last decade to a 6.0% contraction recently. More importantly, capital goods imports have been plunging at a 50% rate in the past few months. This has been a huge blow to countries with large exports of capital goods to the U.S., notably Mexico, Germany, Japan, and many other Asian economies. These economies that had hitched a ride on the fast-growing U.S. economy will find it harder to sell their goods abroad. With the U.S. economy faltering and the Japanese economy in chronic recession, it was hoped strong European economic growth would fill the void left by the United States. Unfortunately this appears unlikely, as Europe reels from its own problems. The European economies were hit hard in 2000 by the twin shocks of higher energy prices and the high-tech bust. At least some of the blame for the European slowdown can be blamed on the institutional rigidities of the European Monetary Union. The European Central Bank appears to have been overly conservative in its monetary policy, while European governments have been slow to implement counter cyclical fiscal policies. This does not bode well for global economic growth. It is anticipated the global economy will expand 1.5% in 2002. While this is three times faster than the U.S. economy, it will still be considered a recession year. This is because a world recession is defined as real global economic growth of less than 2.0%. Under that definition, this year marks the second straight year the world is in a recession. Domestic and foreign economic growth should surpass that threshold in 2003, thus ending the global recession.

U.S. Imports and Exports

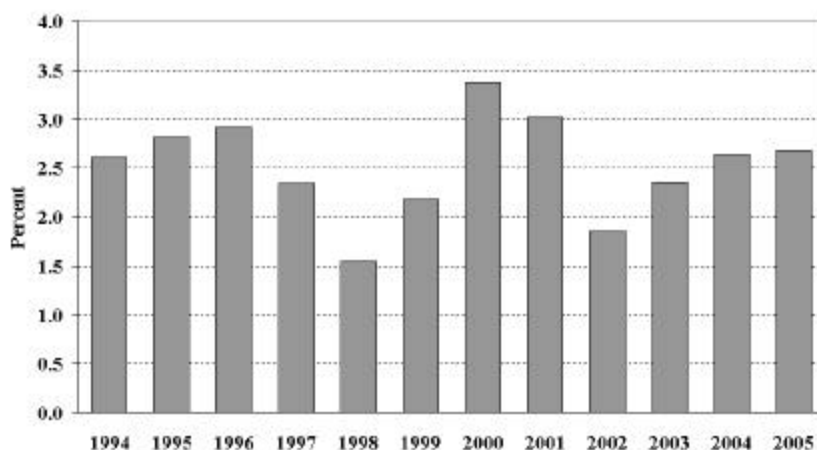


Source: DRI/WEFA

Source: DRI/WEFA

Inflation: The tame inflation picture is a welcome exception to the short-term U.S. economic forecast that is replete with challenges. However, it is important to remember while the lack of inflation is desirable it is also symptomatic of the weaknesses in the economy. The lack of pricing leverage means profits will be under pressure for some time and that businesses will be hesitant to increase capital spending. Indeed, consumer inflation is expected to be below 2.0% this year and up just slightly in 2003. This reflects the combination of flat or falling energy prices, a rising unemployment rate, and ample global manufacturing capacity. Falling energy prices have recently dominated the decline in prices for crude goods. This fall the price of oil dropped 20% and the price of natural gas tumbled more than 50% in a two-month period. The National Association of Purchasing Managers' (NAPM) October reports quantified the weakness in manufacturing. The NAPM index for manufacturing activity posted its steepest decline since 1980, with the index plunging to 39.8%, down from 47.0% in September 2001. To put this in perspective, a reading below 50% indicates a contraction in manufacturing activity and a reading below 42.7% is consistent with a recession. Unfortunately, other data published by NAPM show the slowdown has spread beyond the manufacturing sector. The NAPM nonmanufacturing index fell to 40.6% in October 2001—an all-time low. In addition, employer compensation pressures should be mild because of the soft employment picture. Specifically, wages and salaries are expected to rise just under 3.0% this year and just over that amount over the remaining years of the forecast. Consumer price inflation is anticipated to be 1.9% this year, 2.4% next year, 2.6% in 2004, and 2.7% in 2005. Core inflation (consumer inflation excluding food and energy) is expected to be 2.4% in 2002, 2.5% in 2003, and 2.8% in both 2004 and 2005.

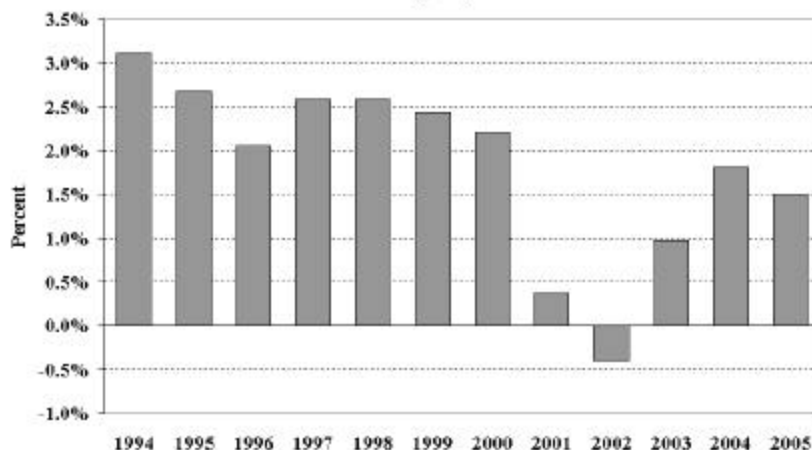
Consumer Price Inflation



Source: DRI*WEFA

Employment: The employment picture soured this summer and is not expected to improve until well after the recession is over. After falling below 4.0% in late 2000, the U.S. civilian unemployment rate inched up through the first half of 2001. By the spring of 2001 it was 4.5%, which is still considered full employment. The unemployment rate hovered near this level through most of the summer of 2001 despite increasing signs the economy was weakening. (In fact, the recession had started in April 2001.) This is consistent with most companies' behavior in past

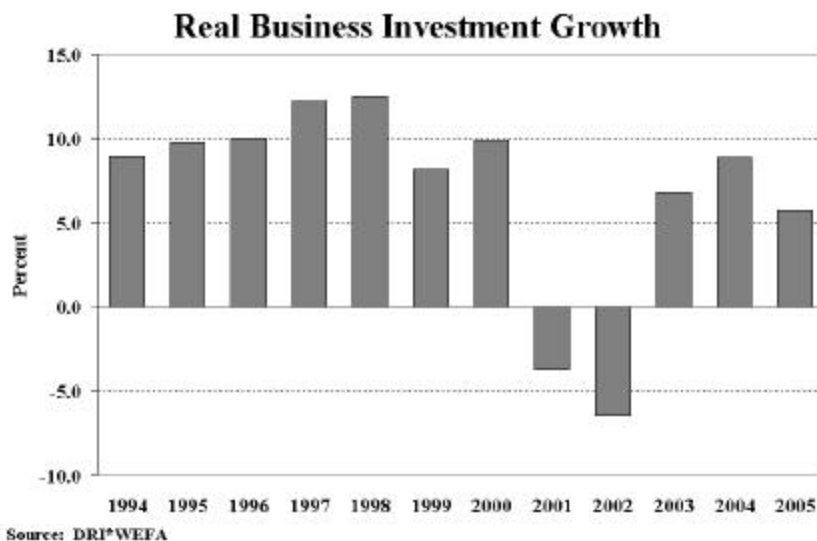
U.S. Nonfarm Employment Growth



Source: DRI*WEFA

recessions. Before taking any action employers must be convinced they are in a slowdown. Even after they determine this, they are hesitant to cut payrolls because many companies have a large investment in their employees. They will take other measures, such as reducing hours, before laying off employees. Thus, the unemployment rate will remain low at the beginning of a recession. On the hand, having gone through a downturn, many companies are hesitant to hire employees, so the unemployment will rise even after a recession is officially over. For example, the unemployment rate peaked over a year after the 1990-91 recession ended. The U.S. civilian unemployment rate did jump to 4.9% last August and it was 5.7% in November. The jobless rate in November was the highest since August 1995 and suggests the nation was below full employment at the end of last year for the first time since the second quarter of 1997. This rise in the unemployment rate is consistent with hemorrhage of jobs in recent months. The U.S. Department of Commerce's Bureau of Labor Statistics reported nonfarm employment fell 468,000 in October 2001 followed by an additional 331,000 drop in November 2000. From April 2001, when the recession, began to November 2001, U.S. nonfarm payrolls shrunk by 1.2 million jobs. These losses were broad based, but manufacturing has been particularly hard hit. This sector's employment began declining in July 2000, about a year before the recession began. Since then 1.4 million manufacturing jobs have been lost. It should be pointed out that the high-tech component of manufacturing has been particularly hard hit. Two-thirds of the manufacturing jobs lost since July 2000 was in electrical equipment and industrial machinery. Unfortunately, nonfarm employment is not projected to grow again until the second half of 2002—about six months after the recession is expected to be over. It should be noted that initially job growth will be meager and the unemployment rate will remain high. Specifically, nonfarm employment will expand by no more than 1.0% from the second quarter of 2002 to the first quarter of 2003. The U.S. civilian unemployment rate is forecast to peak at 6.3% in the third quarter of 2002. It will ease thereafter, but it is not expected to fall under the full-employment threshold during the forecast horizon.

Business Investment: The current recession reflects a collapse in real business spending. The 1990-91 downturn, in comparison, resulted from soft consumer spending. Consumer spending has held up remarkably well during the current downturn, growing through the fall of 2001. It is expected to post a modest decline in the first quarter of 2002. Real business fixed investment is expected to decline nearly 7.0%, however. The weakening investment picture started well before the recession's onset. The U.S. manufacturing



sector recession began about a year ago and investment began slipping earlier this year. It also forecast to last until the beginning of next year. Over this period, real fixed business investment should drop 11.0%. The severity of the investment collapse reflects current imbalance between aggregate demand and aggregate supply in the global economy. The surge of investment in the late 1990s ran aground of collapsing global demand in the new millennium, leaving the world awash in excess manufacturing capacity. This will cause real business investment to shrink this year and next. When the next round of business investment expansion starts in 2003, growth rates should be below those experienced during the latter years of the 1990s. Not all the news regarding business investment is bad, though. Recent data show businesses are successfully whittling down excess inventories.

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2001 through the Fourth Quarter of 2005

What a difference a year makes! A year ago when the Division of Financial Management (DFM) reviewed the performance of Idaho's economy in 2000 the tone was positive. That year proved to be a pleasant surprise, with the economy posting stronger-than-anticipated growth. Performing a review of Idaho's economic performance for 2001 shows that year was disappointing. Two major indicators of the state's measure of economic health came in below expectations. In January 2001 (DFM) predicted that Idaho nonfarm employment would grow 2.3% in 2001 and real personal income would expand 4.6%. While this was slightly weaker than in the previous year, it was still fairly healthy growth. Unfortunately, the rapidly cooling national economy and the events of September 11, 2001, suggest this forecast was optimistic. Real GDP was expected to grow 3.6% in 2001 in the January 2001 *Forecast*. The current forecast anticipates real GDP will expand just 1.1% in 2001—a decrease of more than two-thirds. Under the weaker national economic conditions, Idaho nonfarm employment is projected to rise just 1.8% in 2001 and real personal income should grow 2.7%.

Idaho is expected to experience even softer economic growth this year compared to last year. A major reason for this is a national downturn that started in 2001 and is expected to carry over into 2002. As a result, real GDP is projected to grow a meager 0.4% in 2002. The ripples from this weakness will be felt locally and make 2002 the most challenging year of the forecast. Idaho nonfarm employment should grow just 0.5% this year, which is less than one-third the previous year's pace. Real Idaho personal income advances 2.2%, which is one-half percentage point lower than in 2001. While Idaho nonfarm employment and real personal income slow significantly in 2002, it is important to note that they still fare better than their respective national counterparts. For example, U.S. nonfarm employment is forecast to decline 0.4% in 2002 and real personal income should rise just 1.1%.

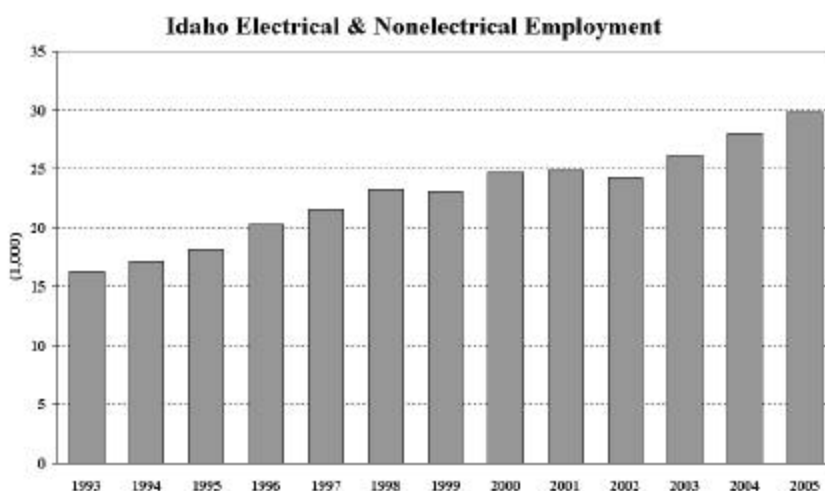
Another way of quantifying the Idaho economy's softness this year is to compare it with the forecast that was made a year ago. In January 2001, DFM forecast Idaho nonfarm employment would rise 2.3% in 2002. As pointed out above, DFM now believes it will increase 0.5%, about one-fifth its previously forecasted rate. Idaho real personal income displays a similar reduction. In January 2001 DFM forecast real personal income would rise 4.5% this year. The current forecast shows Idaho real personal income will grow at half that pace in 2002. As in 2001, this change largely reflects the much weaker outlook for the national economy in 2002. A look at real output illustrates this change. Last January real GDP was anticipated to grow 4.3% in 2002. In the current forecast it ekes out just 0.4% growth.

The Idaho economic outlook improves after this year as the national recovery hits full stride in 2003 and continues growing in the remaining years of the forecast. Idaho nonfarm employment grows about 2.0% per year over this period. Leading the charge during the first years of the recovery is the state's services-producing sector. The goods-producing sector will post sub-par employment growth until 2005. This reflects ongoing challenges in resource-based industries, soft investment spending, and the gradual decline in Idaho housing starts. In 2005, however, this sector's employment is expected to grow faster than overall Idaho nonfarm job growth. Idaho real personal income's growth pace also improves after 2002. Powered by strong wage and salaries growth, Idaho real personal income should advance 3.9% in 2003, 3.4% in 2004, and 3.5% in 2005.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery:

Idaho's largest manufacturing employment sector, electrical and nonelectrical machinery, is feeling the pain of the longest downturn in the nation's high-tech sector. As a result, Idaho electrical and nonelectrical employment is expected to shrink this year and post relatively meager gains thereafter. The high-tech industry's woes can be traced to the collapse in business fixed investment. During the second half of the 1990s, U.S.



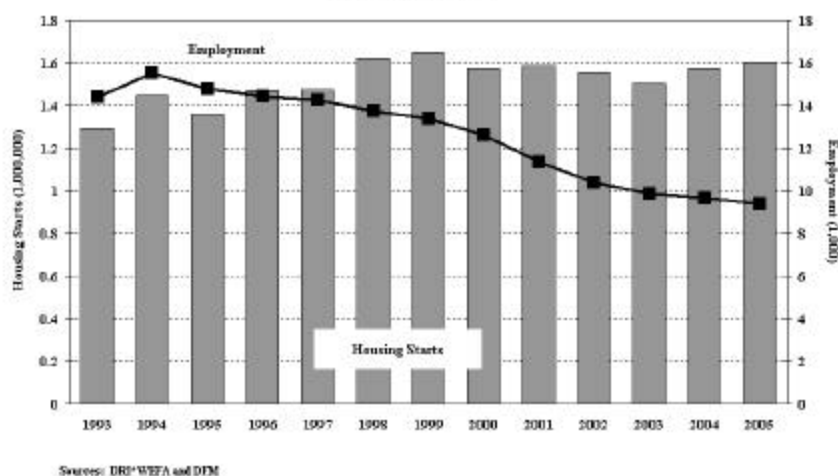
real business investment was an engine of economic growth that grew over 10.0% annually. High-tech investment did particularly well during this period. Real combined spending on software, computers, and communications equipment advanced over 25.0% per year. This strong showing would later prove to be a burden. This is because the investment swelled the nation's manufacturing capacity just prior to a softening in demand. As a result, the U.S. manufacturing capacity utilization rate sank from 81.7% in the middle of 2000 to 73.0% in November 2001. In addition, other countries also have excess manufacturing capacity. With the current glut of manufacturing capacity, U.S. companies are curtailing their investment plans. This is expected to shrink real business investment in 2001 and 2002. Real high-tech investment is anticipated to decline about 5.0% in both those years, which is the only time it has dropped for two consecutive years since records have been kept. Idaho has not been immune from the impacts of the declining investment. Idaho firms have announced plans to reduce payrolls by nearly 3,000 persons this year alone. These layoffs have been spread across several Idaho firms, such as Hewlett-Packard; Jabil Circuit; Micron Electronics; SCP Global Technologies; Extended Systems; MCMS; and Zilog. Some of these companies have asked remaining employees to take time off during the year in an effort to cut costs. A notable exception to the list of high-tech companies announcing layoffs has been Micron Technology. The Boise Valley's largest private employer has not cut jobs during the high-tech industry's current downturn. Instead, it has recently initiated a hiring freeze. This has had an impact on the employment outlook because Micron Technology has been a steady engine of growth, adding 100 to 200 jobs per month. Given the collapse in investment, 2002 should prove to be a challenging year for this sector. However, it is expected to fare better than its national counterpart. Specifically, Idaho's electrical and nonelectrical machinery sector employment is forecast to decline 2.3% in 2002, then grow 7.7% in 2003, 6.8% in 2004, and 6.7% in 2005. In comparison, U.S. electrical and nonelectrical employment is projected to decrease 10.5% in 2002, 2.3% in 2003, 0.6% in 2004, and grow 3.5% in 2005. In other high-tech news, Micron Technology added to its capacity by acquiring a 600,000 square foot chip manufacturing plant from rival Toshiba. The plant is located near Washington, D.C.

Lumber and Wood Products: The downward trend in Idaho lumber and wood products employment is projected to continue through the forecast period. The drops in Idaho have been dramatic. From 1990 to 2000, this important manufacturing employer has shed nearly 2,300 jobs. While this may seem negligible compared to total Idaho employment, it represents over 15.0% of the lumber and wood

sector employment base. It should also be remembered that mills are often the largest employers in Idaho rural communities, so a curtailment of operations or a closure has a devastating impact on those areas. This decline has not been unique to Idaho, however. The shrinking lumber and wood products sector has been a regional phenomenon. Random Lengths recently reported that there were 337 sawmills, plywood plants, veneer mills, and board mills operating in Oregon, Washington,

California, Idaho, and Montana, which was just over half the 663 that were in operation ten years ago. These closures have taken a heavy human toll. Job losses have been high. From 1989 to April 2001, an estimated 43,581 jobs have been lost in the region. Local employment data suggest job losses have actually accelerated recently in Idaho, falling 10.1% in 2001 alone. Some of this drop is due to the closures of Boise Cascade's Cascade and Emmett plants. These closures were blamed on the dwindling supply of federal timber available for harvest in Idaho. Federal records show the amount of timber harvested from federal lands has indeed declined. According to U.S. Department Agriculture, the total amount of timber harvested in Idaho fell from 1.9 million board feet in 1989 to 1.3 billion board feet in 1999, a 30% drop. This data also show that harvests from Idaho national forests fell an astounding 80% over this ten-year period. Unfortunately, these communities lost more than just jobs. Communities with national forests depend on payments in lieu of taxes (PILT) from federal timber sales. In these communities, federal lands are not on property tax rolls. Instead, these communities traditionally receive 25% of the revenue from federal timber sales in their locale. Thus, the declining federal harvests have slowly starved the budgets of rural governments. The Idaho Department of Labor reports PILT to these counties have declined 75% from 1989 to 2000. These communities will get relief in the form of the Craig-Wyden Bill that was passed in 2000. The bill stabilizes timber sales payments by averaging the three highest payments from 1986 to 2000. The counties will receive this amount over the next six years. Another uncertainty facing this sector is the expiration of the Softwood Lumber Agreement between the U.S. and Canada. The outcome of negotiations between the two countries are critical because of the current excess capacity. One estimate shows the industry is already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. These pressures will become more acute over the next few years as the anticipated slowing of the global economy limits markets for lumber and wood products. Idaho lumber and wood products employment is forecast to drop 8.4% in 2002, 5.0% in 2003, 2.3% in 2004, and 2.7% in 2005.

Idaho Lumber & Wood Products Employment and U.S. Housing Starts

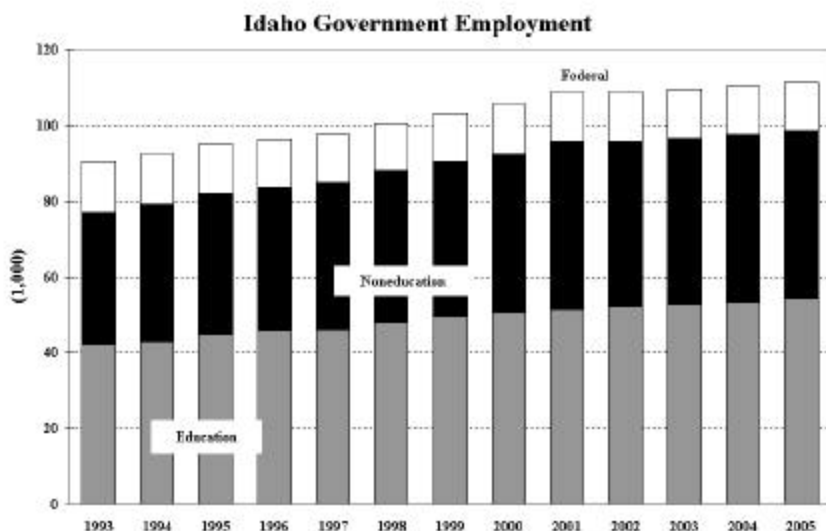


Mining and Chemicals: Last year was one of the toughest in recent memory for Idaho's mining and chemical sectors and next year should also prove challenging. The state's long-suffering mining sector received two major blows last year with the closing of the Sunshine Mine and curtailed operations at the Lucky Friday Mine. The Sunshine Mine was closed because the Asarco Smelter in East Helena was shutdown, leaving Sunshine without a place to send its silver concentrate. Low metal prices caused Lucky Friday to scale back production at its Mullen, Idaho mine. Unfortunately, it is unlikely that Idaho's mining sector has experienced its last round of job cuts. This sector's payroll is forecast to

shrink another 15.3% in 2002. Employment should grow again as the U.S. economy recovers, but any job growth will be marginal. By 2005, Idaho mining employment is forecast to be 2,061, which is even less than it was in 2001. The state's chemical sector is facing challenges of its own. Astaris closed its Pocatello elemental phosphorus plant after more than a half a century of operation. Job cuts had been anticipated even before the October 11, 2001 closure announcement. Last March, the company reported its plan to shut down three of its four production furnaces and was planning to reduce its work force by half (around 200) by June 2002. The timing of this closure is especially bad for the City of Pocatello. Astaris was just one of two major employers in that area to reduce jobs. AMI, an electronics manufacturer, let go of about 200 employees recently. Unfortunately, Astaris is not the only Gem State chemical manufacturer to fall on hard times. Kerr-McGee closed its Soda Springs vanadium and phosphate plant due to the low price of vanadium. Idaho chemical employment should drop from 2,298 in 2001 to 1,887 in 2005.



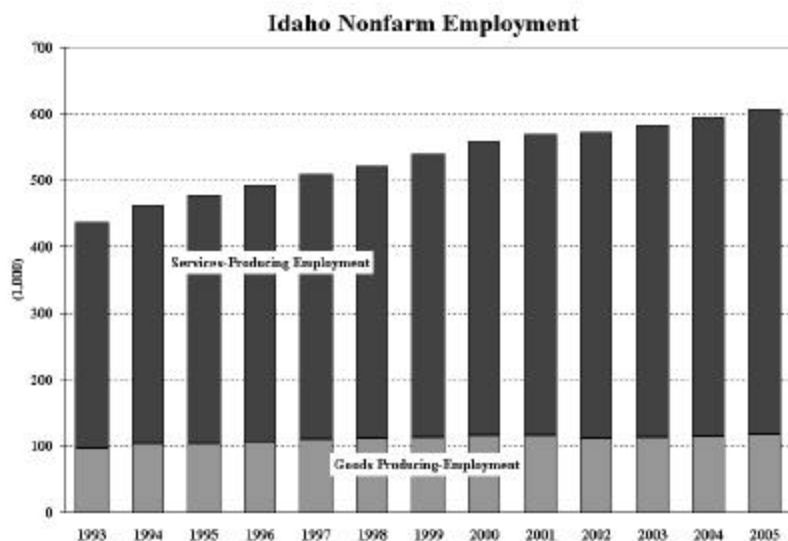
Federal, State, and Local Governments: Government employment growth opportunities in Idaho are anticipated to be limited over the forecast period. Idaho state and local government payrolls are expected to advance by no more than one percent annually through 2005 because of the cooling economy, slowing population growth, and the enacting of austerity measures. This is a significant change from the 1990s when this sector's employment advanced at a 3.3% annual rate. The state's strong population last decade was a major reason for the previous decade's employment increases. Idaho's population jumped 28.5% from 1990 to 2000. Fueling this increase was the influx of new residents into the state. Specifically, net migration accounted for two-thirds of the increase in total population. The state's strong economy was a major force attracting new residents. During the recession years of the early 1990s, U.S. nonfarm employment shrank nearly one percent. In some states, such as California, the downturn was even more severe. The combination of the slow growth in the 1980s and the 1990's rapid rise in population strained Idaho's infrastructure. In response to these pressures, Idaho state and local government employment advanced over 3.5% annually during the first half of the decade. Even at this pace, Idaho governments were in catch-up mode over most of the decade. By the end of



the 1990's Idaho's population growth was about half as fast as in the early 1990s. This gave Idaho state and local governments the opportunity to catch up with infrastructure needs. As these needs are met, Idaho state and local employment growth is expected to slow. In addition, Idaho local government budget caps will further limit employment gains. Recently, state tax collections have softened, and this too will dampen Idaho state and local employment growth. Idaho state and local government employment is forecast to increase 3.6% in 2001, 0.0% in 2002, 0.8% in 2003, 0.9% in 2004, and 1.0% in 2005. Idaho education employment is forecast to rise 1.5% in 2001, 1.4% in 2002, 1.1% in 2003, 1.4% in 2004, and 1.7% in 2005. Idaho non-education government employment should increase 6.2% in 2001, fall 1.6% in 2002, and increase 0.4% in 2003, and 0.3% in both 2004 and 2005. Idaho federal government employment is anticipated to shrink from 13,114 in 2001 to 12,939 in 2005, a cumulative decline of 4.0%.

Services-Producing Industries:

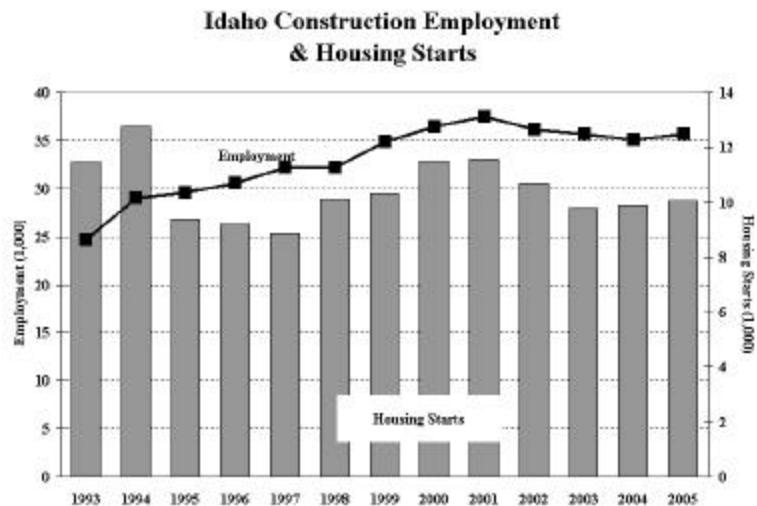
Like its national counterpart, Idaho's services-producing sector continues to grow and evolve. This sector consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Given this broad definition, it is no wonder it accounts for most of the jobs in Idaho. The biggest trend transforming it is the ongoing move away from a goods-producing economy to a services-producing one. This can be seen in the nonfarm job data.



In 1970, just over one of every four jobs in Idaho was in the goods-producing sector (manufacturing, mining, and construction). Three decades later, the goods-producing sector accounts for one of every five jobs. The trade and services components combined account for more than half the total employees in this sector. In the past, services usually grew up around and supported the goods-producing industry. As the economy matures, services-based industries are becoming less dependent on basic industries. An example of this trend is the growing number of call centers in Idaho. The call centers are involved in a wide range of activities including sales, help lines, telemarketing, customer services, and market research. Call centers also encompass a wide variety of business sectors. These include manufacturing, transportation, communications, trade, finance, insurance, business services, and research and development. One of the most pleasing aspects of this growth is how diverse it has been. The GTE order-processing center is in North Idaho, the Carlson Leisure Group call center is in the Treasure Valley, and Convergys Call Center is in Bannock County. These companies have flourished in Idaho because new technology frees these companies from being located near their markets. Instead, they are drawn to Idaho because of its high quality labor force. This has created opportunities in the Gem State that a few years ago would have seemed impossible. For example, landlocked Boise is the home to an international shipping company's scheduling operations. However, the ties between goods- and services-producing sectors have not been completely severed. In fact, in some cases they have even been reinforced. Manufacturing firms sometimes use temporary employees to meet their peak demand needs. These employees are often employed by employment services and are counted as service

employees. As a result, their numbers will wax and wane with the business cycle. Another trend affecting service employment is the increasing presence of national “big-box” merchandisers in the Gem state. The state’s rapid growth during the 1990s has put the Gem State on the radarscope of these companies’ planning departments. Recent openings by such industry giants as Fred Meyer and Wal-Mart have provided employment opportunities in both urban and rural communities. Services-producing employment is projected to increase 2.5% in 2001, 1.4% in 2002, 2.0% in 2003, and 2.1% in both 2004 and 2005.

Construction: Falling Idaho housing starts will cause construction employment to contract through 2004. This marks a significant departure from the 1990s when the construction sector was a key component of growth. From 1989 to 1999, the number of construction jobs in Idaho advanced 8.2% per year. To put this in perspective, Idaho total nonfarm employment growth averaged 4.0% per year over the same period. The growth in construction employment



resulted primarily from the booming housing market caused by the state’s rising population. Housing starts surged from about 3,300 units in 1988 to nearly 12,800 units in 1994. Housing starts did settle down to about 9,400 units in 1995, but strong nonresidential construction kept this sector’s employment healthy. Since then, total housing starts have hovered in the 9,000- to 11,000-unit range. While this was below 1994’s peak, it is about three times higher than in 1988. Despite low interest rates, Idaho housing starts are expected to decline because of the cooling economy. This will take a toll on construction employment. In addition, the Idaho construction employment forecast includes losses associated with the closing of Astaris’ Pocatello phosphorus plant. More than 500 construction workers were employed building a waste treatment facility that has been scrapped. Idaho housing starts are forecast to be 11,562 units in 2001, 10,679 units in 2002, 9,678 in 2003, 9,871 units in 2004, and 10,036 in 2005. Idaho construction employment is expected to drop from 37,462 in 2001 to 35,673 in 2005.

ALTERNATIVE FORECASTS

DRI*WEFA has assigned a 55% probability of occurrence to its November 2001 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 1.1% in 2001, 0.4% in 2002, 4.4% in 2003, 3.8% in 2004, and 3.2% in 2005;
- U.S. nonfarm employment grows 0.4% in 2001, shrinks 0.4% in 2002, advances 1.0% in 2003, 1.8% in 2004, and 1.5% in 2005;
- the U.S. civilian unemployment rate peaks at 6.2% in 2002, then eases to 5.0% by 2005;
- consumer confidence contracts through next year;
- consumer inflation is 3.0% in 2001, 1.9% in 2002, then ranges between 2.4% and 2.7% thereafter;
- the federal government runs small annual deficits beginning this fiscal year;
- and the real trade deficit swells from \$399 billion in 2001 to about \$490 billion in 2005.

The baseline forecast assumes there will be a mild recession, but that stimulative monetary and fiscal policies will turn the economy around early in 2002. The baseline also assumes that both businesses and consumers return to normal habits over this winter, that higher federal spending kicks in quickly, and that Congress provides additional assistance for the unemployed. Any of these assumptions may prove to be too optimistic. On the other hand, the baseline could be overly pessimistic. If activity turns around on its own, the huge monetary and fiscal stimulus in the pipeline could prove excessive.

While the baseline forecast is the most probable, other outcomes are also possible. The alternative scenarios considered here diverge in separate directions from the baseline forecast. In the first, the economy performs better than in the baseline. In the second, the economy falls short of the baseline's showing. Both alternatives and their impacts on the Idaho economy are discussed below.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 15% probability of occurrence. In this *Scenario* the economy suffers a recession, but a confluence of positive factors dampens the negative impacts of the slowdown compared to the baseline recession. As in the baseline case, weak investment continues to weigh against the economy in this *Scenario*. However, consumer confidence is expected to rebound by the end of 2001. In addition, the expansionary fiscal and monetary policies also provide fuel for the rekindling economy. These factors do not prevent a recession, but they do make it milder. The U.S. economy shrinks 1.6% in the last quarter of 2001 but grows 2.2% in the first quarter of 2002. In the baseline case, real GDP does not resume growth until the second quarter of 2002.

The news in this *Scenario* is not all good, however. A spike in oil prices, combined with growing demand, causes inflation to jump in early 2003. In response, the Federal Reserve raises interest rates to 6.5%. However, with the 2001 recession fresh in its mind, the central bank raises its inflation target. As a result, inflation settles about half a percentage point above the baseline rate.

The quick start of the U.S. recovery helps Idaho's economy outperform its baseline counterpart over the next few years. As the table shows, Idaho nonfarm employment is higher in each year through 2003. However,

nonfarm employment is higher in the baseline case thereafter. This occurs because the recession is shorter in this *Scenario*, but the recovery is stronger in the baseline. Idaho real personal

IDAHO ECONOMIC FORECAST
CURRENT AND ALTERNATIVE FORECASTS
JANUARY 2002

	CURRENT					OPTIMISTIC					PESSIMISTIC				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
GDP (BILLIONS)															
Current \$	10,206	10,414	11,096	11,794	12,460	10,210	10,570	11,211	11,888	12,612	10,195	10,249	10,933	11,791	12,450
% Ch	3.4%	2.0%	6.6%	6.3%	5.6%	3.4%	3.5%	6.1%	6.0%	6.1%	3.3%	0.5%	6.7%	7.8%	5.6%
1996 Chain-Weighted	9,323	9,363	9,777	10,151	10,477	9,327	9,485	9,823	10,101	10,431	9,313	9,214	9,688	10,168	10,486
% Ch	1.1%	0.4%	4.4%	3.8%	3.2%	1.1%	1.7%	3.6%	2.8%	3.3%	1.0%	-1.1%	5.1%	5.0%	3.1%
PERSONAL INCOME - CURR \$															
Idaho (Millions)	32,193	33,388	35,475	37,578	39,862	32,197	33,665	35,847	37,924	40,461	32,183	33,130	35,017	37,239	39,515
% Ch	4.7%	3.7%	6.3%	5.9%	6.1%	4.7%	4.6%	6.5%	5.8%	6.7%	4.6%	2.9%	5.7%	6.3%	6.1%
U.S. (Billions)	8,735	8,962	9,463	10,008	10,543	8,736	9,064	9,603	10,124	10,704	8,732	8,850	9,293	9,929	10,494
% Ch	5.0%	2.6%	5.6%	5.8%	5.3%	5.0%	3.7%	6.0%	5.4%	5.7%	5.0%	1.4%	5.0%	6.8%	5.7%
PERSONAL INCOME - 1996 \$															
Idaho (Millions)	29,368	30,013	31,192	32,246	33,386	29,372	30,319	31,312	32,162	33,389	29,359	29,909	30,892	31,909	33,074
% Ch	2.7%	2.2%	3.9%	3.4%	3.5%	2.7%	3.2%	3.3%	2.7%	3.8%	2.6%	1.9%	3.3%	3.3%	3.7%
U.S. (Billions)	7,968	8,053	8,317	8,585	8,827	7,969	8,160	8,385	8,582	8,830	7,966	7,987	8,195	8,505	8,781
% Ch	3.0%	1.1%	3.3%	3.2%	2.8%	3.0%	2.4%	2.8%	2.4%	2.9%	3.0%	0.3%	2.6%	3.8%	3.2%
TOTAL NONFARM EMPLOYMENT															
Idaho (Thousands)	569.4	572.2	583.1	594.5	607.2	569.4	575.2	586.7	593.3	606.9	569.2	570.3	580.5	592.1	604.6
% Ch	1.8%	0.5%	1.9%	2.0%	2.1%	1.8%	1.0%	2.0%	1.1%	2.3%	1.8%	0.2%	1.8%	2.0%	2.1%
U.S. (Millions)	132.2	131.7	133.0	135.4	137.5	132.3	132.8	134.3	135.5	137.3	132.2	130.5	131.9	135.4	137.8
% Ch	0.4%	-0.4%	1.0%	1.8%	1.5%	0.4%	0.4%	1.1%	0.9%	1.3%	0.3%	-1.3%	1.0%	2.7%	1.7%
GOODS PRODUCING SECTOR															
Idaho (Thousands)	115.3	111.6	113.1	114.5	117.1	115.4	113.0	114.0	113.7	117.2	115.2	110.4	112.5	115.9	117.9
% Ch	-0.6%	-3.2%	1.3%	1.2%	2.3%	-0.6%	-2.1%	0.9%	-0.3%	3.1%	-0.7%	-4.1%	1.8%	3.1%	1.8%
U.S. (Millions)	25.1	23.6	23.7	24.3	24.6	25.1	24.0	24.4	24.6	24.7	25.1	23.1	23.2	24.6	25.1
% Ch	-2.5%	-5.9%	0.5%	2.6%	0.9%	-2.4%	-4.4%	1.7%	0.9%	0.6%	-2.6%	-7.6%	0.3%	5.8%	2.3%
SERVICE PRODUCING SECTOR															
Idaho (Thousands)	454.0	460.5	470.0	480.0	490.2	454.0	462.2	472.6	479.6	489.6	454.0	459.9	468.1	476.2	486.6
% Ch	2.5%	1.4%	2.0%	2.1%	2.1%	2.5%	1.8%	2.3%	1.5%	2.1%	2.4%	1.3%	1.9%	1.8%	2.1%
U.S. (Millions)	107.2	108.1	109.3	111.1	112.9	107.2	108.9	109.9	110.9	112.5	107.1	107.4	108.7	110.8	112.7
% Ch	1.1%	0.9%	1.1%	1.6%	1.6%	1.1%	1.6%	1.0%	0.9%	1.5%	1.0%	0.2%	1.2%	2.0%	1.6%
SELECTED INTEREST RATES															
Federal Funds	3.9%	2.5%	4.5%	5.0%	5.0%	3.9%	3.1%	5.8%	5.5%	5.5%	3.9%	1.7%	2.6%	3.8%	5.0%
Bank Prime	6.9%	5.5%	7.5%	8.0%	8.0%	6.9%	6.1%	8.8%	8.5%	8.5%	6.9%	4.7%	5.6%	6.8%	8.0%
Existing Home Mortgage	7.1%	6.9%	8.0%	8.4%	8.2%	7.1%	7.2%	8.8%	8.8%	8.6%	7.1%	6.5%	6.9%	7.7%	8.2%
INFLATION															
GDP Price Deflator	2.3%	1.6%	2.0%	2.4%	2.4%	2.3%	1.8%	2.4%	3.1%	2.7%	2.3%	1.6%	1.5%	2.8%	2.4%
Personal Cons Deflator	2.0%	1.5%	2.2%	2.5%	2.5%	2.0%	1.3%	3.1%	3.0%	2.8%	1.9%	1.0%	2.3%	3.0%	2.4%
Consumer Price Index	3.0%	1.9%	2.4%	2.6%	2.7%	3.0%	1.7%	3.1%	3.2%	3.0%	3.0%	1.4%	2.4%	3.1%	2.6%

Forecast Begins the THIRD Quarter of 2001

income displays a similar pattern. It starts out in 2002 noticeably higher than in the baseline case, but in 2005 it is virtually the same as in the baseline case.

PESSIMISTIC SCENARIO

DRI*WEFA has assigned a 30% probability of occurrence to the *Pessimistic Scenario*. In this scenario, consumers and business hunker down and pull back spending and investment until future events become more certain. Unfortunately, the future is filled with uncertainties. While government spending will almost certainly increase, it is difficult to establish a timetable for its implementation. Efforts to enact tax relief and aid the unemployed get mired by congressional gridlock. A more protracted and severe U.S. downturn would also aggravate the global recession, with negative repercussions for U.S. exports.

The net result of all these negatives is a four-quarter recession that began in the second quarter of 2001 and lasts into spring 2002. Real GDP drops 2.2% from peak to trough. At the trough, spending on equipment and software and on nonresidential construction are both 20% below their peaks. Consumer spending drops in the fourth quarter of 2001 and the first quarter of 2002, accompanied by a wave of mortgage foreclosures and bankruptcies.

In this *Scenario* the Idaho economy experiences slower growth in 2002 than in the baseline, but matches the baseline pace in the other years. Specifically, Idaho nonfarm employment ekes out just 0.2% growth in 2002 in this *Scenario*. Because of this slow start, Idaho nonfarm employment is 604,6000 in 2005, compared to the baseline's 607,200. Idaho real personal income growth is weaker than its baseline counterpart in 2002 and 2003. In 2005, Idaho real personal income is more than \$300 million less (0.9%) than in the baseline.